



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

April 19, 2005

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
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MICHAEL D. ANTONOVICH
Fifth District

Dear Supervisors:

**APPROVAL OF MEDICARE PART B PREMIUM REIMBURSEMENT FOR 2005
(3-VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Renew for the 2005 calendar year County reimbursement of retiree Medicare Part B premiums for retirees who enroll in a LACERA administered Medicare Risk HMO or Medicare Supplement Plan with the understanding that such reimbursement will cover Part B premium adjustments effective January 1, 2005.
2. Instruct the Chief Administrative Officer to report back to your Board prior to January 1, 2006, with recommendations regarding Part B reimbursement policy for the 2006 calendar year.
3. Reaffirm your Board's right to change or terminate the Medicare Part B premium reimbursement program at any time if it ceases to be cost effective.

PURPOSE/JUSTIFICATION OF THE RECOMMENDED ACTION

Since 1992, the County has sponsored retiree health insurance plans designed to encourage retirees to fully participate in the Federal Medicare program. This has included reimbursing retirees for the cost of participating in Medicare Part B in those instances where the retiree has enrolled in one of the Medicare Risk HMOs or the Medicare Supplement Plan administered by LACERA.

Medicare Part B premiums increased 17.4 percent on January 1, 2005, resulting in an increase in cost of \$11.60 per month per covered individual. This was the second

consecutive year of double digit increase in Part B premium costs. In light of this development, LACERA took action to pass the January 1, 2005, Part B cost increase on to the affected retirees pending further review by the County.

The purpose of the recommended action is to authorize the inclusion of the \$11.60 charge in the costs reimbursable by the County, effective January 1, 2005. This will affect approximately 22,400 retirees and eligible dependents. The recommended action also requires the Chief Administrative Officer to report back to your Board prior to January 1, 2006, with additional recommendations regarding the Part B reimbursement program for the 2006 calendar year. Medicare Part B premiums are routinely adjusted on January 1 of each year, and it is important that the cost/benefit of this program be re-evaluated in light of the January 1, 2006, Part B adjustments, as well as any intervening adjustments in the cost of LACERA health insurance.

Background

The County pays a subsidy toward the cost of retiree health based on each retiree's length of active County service. The subsidy equals four percent of the cost of the coverage chosen by the retiree for each year of service, if the retiree has a minimum of ten years of service. No subsidy is paid with less than ten years of service. For example, a retiree with the minimum ten years of service receives a subsidy of 40 percent of premium costs and a retiree with 25 years of service receives a subsidy of 100 percent of premium costs. In no event, however, may the subsidy exceed the subsidy payable for the LACERA indemnity health plans currently known as "Blue Cross I and II." These plans have identical premiums which set a cap on the subsidy. Within these limitations, the subsidy amount covers the cost of coverage for the retiree and any eligible dependents.

Medicare consists of two parts known as "Part A" and "Part B." Part A generally covers hospitalization costs, and Part B generally covers physician services and other ancillary items such as laboratory testing and durable medical equipment. Part A coverage may be earned by working the requisite number of quarters in Medicare covered employment and Part B may be purchased by anyone eligible for Part A. In 2004, the charge for Part B was \$66.60 per month for a person enrolling at age 65. Effective January 1, 2005, the price increased by approximately 17.4 percent to \$78.20 per month.

The menu of County sponsored LACERA administered retiree health plans include both Medicare Risk HMOs and a Medicare Supplement Plan. A Medicare Risk HMO is an

HMO in which the participants have assigned over all rights to Medicare Parts A and B to the HMO. The participant effectively agrees to receive all of his or her medical care from the HMO and to waive any right to use Medicare benefits outside the HMO. In exchange, Medicare agrees to pay the HMO a monthly "capitation" fee on behalf of the participant. That fee defrays much of the cost of the HMO coverage. The reduction in cost is passed on to the retirees and the County in the form of lower premiums and subsidy costs.

A Medicare Supplement Plan is an indemnity plan that complements Medicare Part A and Part B benefits. Medicare becomes the primary payer, meaning Medicare pays first on each claim. A Medicare Supplement Plan essentially picks up where Medicare leaves off within the limitations set forth in the plan. Like the Medicare Risk HMO concept, the Medicare Supplement concept reduces County and retiree costs by the value of the Medicare Part A and B benefits.

LACERA currently administers three Medicare Risk HMOs and one Medicare Supplement Plan. The HMOs are known as "Kaiser Senior Advantage," "SCAN," and "PacifiCare/Secure Horizons." The Medicare Supplement Plan is known as "Blue Cross III."

Medicare Part B Reimbursement

In 1992, your Board approved the Medicare Part B Reimbursement Program as a means of encouraging retirees to enroll in a Medicare Risk HMO or the Medicare Supplement Plan. From 1992 through 2004, the County has generally paid the full cost of Part B for any retiree who has earned Part A and enrolled in one of these plans. The justification advanced to the Board in 1992, and that we believe is still valid today, holds that the cost of the Part B coverage is more than offset by the reduction in subsidy costs for the lower cost Medicare Risk HMO and Medicare Supplement coverage.

In the original 1992 Board action, the Board limited its liability to the then published Part B premium schedule through 1995. The Board's action also provided that, after June 30, 1996, the Part B Reimbursement Program is subject to change or cancellation at the discretion of the Board, and that it should be continued only "if cost savings are realized." In fact, all adjustments in the Part B premiums since the inception of the program have been fully reimbursed by the County. Clearly, the original stated purpose of this program is to spend money as a means of saving more money. In this connection, it is appropriate to re-evaluate whether continuing to pick-up the full cost of the Part B coverage, including the 17.4 percent increase in 2005, is cost justified.

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The 2004 County cost for Part B reimbursement is estimated at \$18 million for approximately 17,400 retirees and 5,000 eligible dependents (22,400 total). Although there is no way to be certain what the costs of the retiree health insurance program would be in the absence of this incentive, LACERA's actuary has estimated that overall program costs (including the \$18 million) would increase by \$16 million to \$59 million per annum. The estimate varies depending on the assumptions made with regard to which alternative health plans retirees would choose in the absence of the Medicare Risk HMO and Medicare Supplement options.

Recommended Pick-Up of January 1, 2005 Part B Increase

Picking up the 2005 Part B premium would add approximately \$3 million per annum to the current level of Part B reimbursement expenditures. This is roughly one percent of the County's overall annual expense for the retiree health insurance program. The key question at this point is whether spending \$3 million would produce more than \$3 million in savings. That is, is spending \$3 million necessary to retain the current level of participation in the Medicare Risk HMOs and Blue Cross III and thereby avoid more than \$3 million in higher subsidy costs that could be caused by a possible reverse migration out of these plans?

Although an \$11.60 cost shift would presumably not cause the majority of the participants in the Part B Reimbursement Program to immediately abandon their current coverage in favor of higher cost LACERA coverage, it would not take a lot of change to generate additional County costs of more than \$3 million per annum. Of the 17,400 retirees currently in the Program, approximately 8,900 (51%) are receiving a 100 percent County subsidy because they have 25 or more years of County service. These individuals could enroll in any LACERA health plan and have the full premium paid by the County up to the aforementioned maximum subsidy limit established by the Blue Cross I and II Plans. This fact is reflected in the aforementioned LACERA estimates as to the overall cost savings from the Part B Reimbursement Program.

Of the 8,900 retirees receiving the full subsidy, approximately 4,900 are in the Kaiser Senior Advantage Plan. These individuals could convert to a non-Medicare Risk version of Kaiser known as "Kaiser Excess I" where Part B coverage is not required. Based on the current LACERA premium rates, and taking into account the \$11.60 cost shift, a 25 or more year retiree making this change could do so at no cost to the retiree. The County's cost, however, would range from approximately \$299 per month to \$484 per month depending on family size. This being the case, a migration of less than 20

percent of the Kaiser Senior Advantage group would completely offset any program-wide savings from the \$11.60 cost shift. Any other migration to more expensive coverage on the part of other retirees with less than 25 years of service would further increase County costs. For these reasons, we are recommending that the existing policy of picking up the full Part B cost be continued through 2005.

Attachments I through VI provide additional information on the difference in current retiree costs and benefit coverage between the Kaiser Senior Advantage and Blue Cross III plans and the alternative non-Medicare related Kaiser Excess I and Blue Cross I and II Plans. The populations in Kaiser Senior Advantage and Blue Cross III represent approximately 93 percent of the total Part B reimbursement program participants.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommended action supports the County's Strategic Plan Goal of financial responsibility.

FISCAL IMPACT

The recommended action would result in additional Part B reimbursement costs of approximately \$3 million per annum. However, the costs of not approving the recommendation could be much greater.

FACTS AND PROVISIONS

LACERA took action to administratively shift the 2005 Part B increase to the affected retiree population beginning January 1, 2005. Board approval of these recommendations would retroactively reverse this action. The necessary adjustments would be made through the LACERA pension payroll system.

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The Chief Administrative Officer will report back prior to January 1, 2006, with additional recommendations relating to Part B reimbursement policy for the 2006 calendar year.

Respectfully submitted,



DAVID E. JANSSEN
Chief Administrative Officer

DEJ:SRH
WGL:BL:df

Attachments (6)

c: LACERA
Auditor-Controller
County Counsel

ATTACHMENT I

KAISER MEDICARE AND NON-MEDICARE HEALTH PLAN RATE COMPARISON (Based on 7-1-04 through 6-30-05 Rates) Retiree Only

		MEDICARE RISK HMO						HMO				
		Kaiser Senior Advantage (Assigned both Parts A & B)						Kaiser Excess I (Assigned only Part A)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	RETIREE COST	TOTAL INSURANCE PREMIUM		
10 YOS (40%)	\$236.20	\$66.60	\$116.78	\$183.38	\$175.16	\$291.94	\$0	\$236.20	\$364.37	\$600.57		
15 YOS (60%)	\$354.30	\$66.60	\$175.16	\$241.76	\$116.78	\$291.94	\$0	\$354.30	\$246.27	\$600.57		
20 YOS (80%)	\$472.40	\$66.60	\$233.55	\$300.15	\$58.39	\$291.94	\$0	\$472.40	\$128.17	\$600.57		
25 YOS (100%)	\$590.50	\$66.60	\$291.94	\$358.54	\$0	\$291.94	\$0	\$590.50	\$10.07	\$600.57		

Moving out of Medicare Part B will result in a permanent penalty upon reentry into Medicare Part B.
Penalty formula = (10%) X (No. of years removed from Part B) X (Current Part B premium)

ATTACHMENT II

KAISER TWO-PARTY MEDICARE HEALTH PLAN RATE COMPARISON (Based on 7-1-04 through 6-30-05 Rates) Retiree & Spouse

		Kaiser Senior Advantage (Retiree & Spouse assigned both Parts A & B)						Kaiser Excess I (Retiree & Spouse assigned only Part A)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	
10 YOS (40%)	\$502.37	\$133.20	\$232.27	\$365.47	\$348.41	\$580.68	\$0	\$479.18	\$479.18	\$718.76	\$1,197.94	
15 YOS (60%)	\$753.56	\$133.20	\$348.41	\$481.61	\$232.27	\$580.68	\$0	\$718.76	\$718.76	\$479.18	\$1,197.94	
20 YOS (80%)	\$1,004.74	\$133.20	\$464.54	\$597.74	\$116.14	\$580.68	\$0	\$958.35	\$958.35	\$239.59	\$1,197.94	
25 YOS (100%)	\$1,255.93	\$133.20	\$580.68	\$713.88	\$0	\$580.68	\$0	\$1,197.94	\$1,197.94	\$0	\$1,197.94	

**Moving out of Medicare Part B will result in a permanent penalty upon reentry into Medicare Part B.
Penalty formula = (10%) X (No. of years removed from Part B) X (Current Part B premium)**

ATTACHMENT III

BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN RATE COMPARISON (Based on 7-1-04 through 6-30-05 Rates) Retiree Only

	MEDICARE SUPPLEMENT						INDEMNITY PLAN					
	BLUE CROSS III (Assigned both Parts A & B)						BLUE CROSS I (Medicare not required)			BLUE CROSS II (Medicare not required)		
	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM		ACTUAL COUNTY SUBSIDY	RETIREE COST	TOTAL INSURANCE PREMIUM	ACTUAL COUNTY SUBSIDY	RETIREE COST	TOTAL INSURANCE PREMIUM
MAXIMUM COUNTY SUBSIDY FOR ALL PLANS												
10 YOS (40%)	\$66.60	\$104.55	\$171.15	\$156.82	\$261.37		\$236.20	\$354.30	\$590.50	\$236.20	\$354.30	\$590.50
15 YOS (60%)	\$66.60	\$156.82	\$223.42	\$104.55	\$261.37		\$354.30	\$236.20	\$590.50	\$354.30	\$236.20	\$590.50
20 YOS (80%)	\$66.60	\$209.10	\$275.70	\$52.27	\$261.37		\$472.40	\$118.10	\$590.50	\$472.40	\$118.10	\$590.50
25 YOS (100%)	\$66.60	\$261.37	\$327.97	\$0	\$261.37		\$590.50	\$0	\$590.50	\$590.50	\$0	\$590.50

Moving out of Medicare Part B will result in a permanent penalty upon reentry into Medicare Part B.
Penalty formula = (10%) X (No. of years removed from Part B) X (Current Part B premium)

ATTACHMENT IV

BLUE CROSS TWO-PARTY MEDICARE HEALTH PLAN RATE COMPARISON (Based on 7-1-04 through 6-30-05 Rates) Retiree & Spouse

	BLUE CROSS III (Retiree & Spouse assigned both Parts A & B)						BLUE CROSS I OR II (Medicare not required)				
	MAXIMUM COUNTY SUBSIDY FOR ALL PLANS	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM	MEDICARE PART B SUBSIDY	ACTUAL COUNTY SUBSIDY	TOTAL COUNTY COST	RETIREE COST	TOTAL INSURANCE PREMIUM
10 YOS (40%)	\$425.88	\$133.20	\$208.23	\$341.43	\$312.34	\$520.57	\$0	\$425.88	\$425.88	\$638.83	\$1,064.71
15 YOS (60%)	\$638.83	\$133.20	\$312.34	\$445.54	\$208.23	\$520.57	\$0	\$638.83	\$638.83	\$425.88	\$1,064.71
20 YOS (80%)	\$851.77	\$133.20	\$416.46	\$549.66	\$104.11	\$520.57	\$0	\$851.77	\$851.77	\$212.94	\$1,064.71
25 YOS (100%)	\$1,064.71	\$133.20	\$520.57	\$653.77	\$0	\$520.57	\$0	\$1,064.71	\$1,064.71	\$0	\$1,064.71

Moving out of Medicare Part B will result in a permanent penalty upon reentry into Medicare Part B.
Penalty formula = (10%) X (No. of years removed from Part B) X (Current Part B premium)

ATTACHMENT V

KAISER MEDICARE AND NON-MEDICARE HEALTH PLAN BENEFITS COMPARISON

		MEDICARE RISK HMO	
		Kaiser Senior Advantage (Assigned both Parts A & B)	Kaiser Excess I (Assigned only Part A)
Expenses			
Calendar Year Deductibles	None		
Annual Maximum Out-of-Pocket Expenses	Max Co-payments of: \$1,500 – Individual \$3,000 - Family		
Lifetime Maximum Benefits	Unlimited		
Hospital Benefits			
Room and Board	No charge		
Surgical Services	No charge		
Hospital Services and Supplies	No charge		
Emergency Benefits			
Inpatient	\$5 copay; waived if admitted		
Outpatient	\$5 copay; waived if admitted		
Ambulance	No charge for emergency		
Outpatient Benefits			
Doctor's Office Visit	\$5 copay		
Preadmission x-ray and lab tests	No charge		
Routine checkups	\$5 copay		
Immunizations	No charge		
Outpatient Surgical services	\$5 copay per procedure		
Physical Therapy	\$5 copay		
Speech Therapy	\$5 copay		
Prescription Drugs	\$7 copay for up to 100-day supply, covers dental prescriptions		
Vision/Hearing Care Benefits			
Eye Exams	\$5 copay		
Lenses	Eye care purchased from plan optical sales offices every 24 months; \$150 allowance		
Frames	Eye care purchased from plan optical sales offices every 24 months; \$150 allowance		
Hearing Exams	\$5 copay		
Hearing Aids	Not covered		
Durable Medical Equipment	Covered	Not covered	

ATTACHMENT VI

BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN BENEFITS COMPARISON

	MEDICARE SUPPLEMENT	INDEMNITY PLAN	
	BLUE CROSS III (Assigned both Parts A & B)	BLUE CROSS I (Medicare not required)	BLUE CROSS II (Medicare not required)
Expenses			
Calendar Year Deductibles	None	\$100 individual, \$100 family	\$500 individual; \$1,500 family
Annual Maximum Out-of-Pocket Expenses	None	N/A	\$2,500 including deductible
Lifetime Maximum Benefits	Unlimited	\$1,000,000	\$1,000,000
Hospital Benefits			
Room and Board	Plan pays all Medicare inpatient deductibles for approved Medicare days	\$75/day \$150/day special care unit	90% PPO hospital; 80% non-PPO
Surgical Services	Plan pays all Medicare inpatient deductibles for approved Medicare days	According to schedule + 80% of balance	80%
Hospital Services and Supplies	Plan pays all Medicare inpatient deductibles for approved Medicare days	100%	90% PPO hospital; 80% non-PPO hospital
Emergency Benefits			
Inpatient	Plan pays all Medicare inpatient deductibles for approved Medicare days	\$75/day \$150/day special care unit	90% PPO hospital; 80% non-PPO hospital
Outpatient	20% of Medicare approved charges	100% at a hospital only	80%
Ambulance	20% of Medicare approved charges	80% for transportation to first hospital where care is given	100%
Durable Medical Equipment	Covered	Not covered	

ATTACHMENT VI (Continued)

BLUE CROSS MEDICARE AND NON-MEDICARE HEALTH PLAN BENEFITS COMPARISON

	MEDICARE SUPPLEMENT	INDEMNITY PLAN	
	BLUE CROSS III (Assigned both Parts A & B)	BLUE CROSS I (Medicare not required)	BLUE CROSS II (Medicare not required)
Outpatient Benefits			
Doctor's Office Visit	20% of Medicare approved charges	80%	
Preadmission x-ray and lab tests	20% of Medicare approved charges	100%	
Routine checkups	Not covered except for dependent children under age 17	(Adult) \$25 copay; covered in-network (Children under 17) \$25 copay; maximum of \$250; covered in-network	(Adult) \$25 copay; covered in-network (Children under 17) \$25 copay; covered in-network
Immunizations	Not covered except for dependent children under age 17	Not covered except for dependent children under age 17	
Outpatient Surgical services	20% of Medicare approved charges	100%	
Physical Therapy	20% of Medicare approved charges	80% in accordance with requirements	
Speech Therapy	20% of Medicare approved charges	80% in accordance with requirements	
Prescription Drugs	80% in-network; \$7 generic/\$15 brand copay for mail order for 90-day supply	80% in-network, 60% out-of-network; \$7 generic/ \$15 brand copay for mail-order for 90-day supply	
Vision/Hearing Care Benefits			
Eye Exams	Not covered	Covered after accident only	
Lenses	Not covered unless 1st lens after eye surgery	Covered after accident and after eye surgery	
Frames	Not covered unless after eye surgery	Covered after accident or after eye surgery only	
Hearing Exams	One per year; 80%	Covered after accident and after eye surgery	
Hearing Aids	50% up to \$300 lifetime maximum	Covered after accident and after eye surgery	